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ECONOMIC WARFARE

Lecture to the Industrial College of the Armed Forces
by [REDACTED]

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26 March 1956

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Reporter-- [REDACTED]

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ECONOMIC WARFARE

COLONEL NYQUIST: We learned during the last war that there are other ways of fighting an effective war, a successful war than those normally associated with the Army, Navy and Air Force. One of those methods, and one in which we are keenly interested here at the College, is economic warfare. In fact, you will recall one of our speakers last week stressed the importance of economic warfare several times during the course of his lecture.

One of the things that we try to put across here at the Industrial College is that a nation's ability to wage a successful war might be said to be directly proportional to that nation's economic ability to support the war machine. Therefore, we feel it quite appropriate that, as we study the economic potential of a nation or a group of nations, we at the same time study methods of destroying or disrupting this economy.

Our speaker this morning, Mr. [REDACTED] is very well qualified in this subject. You have read part of his biography, but in addition, in 1951-1952, he was the Special Assistant to the Assistant Director for Research and Reports, Central Intelligence Agency.

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[REDACTED] He is currently Chief of Economic Coordination, CIA, which includes responsibility for intelligence support to United States economic defense programs.

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25X1A9a [REDACTED] it gives me great pleasure to present you to the Industrial College of the Armed Forces.

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[REDACTED] General Hollis, Officers, Students of the Industrial College: I appreciate this opportunity to discuss the subject of "Economic Warfare" with you. It is a subject in which the Industrial College, by its systematic consideration, has in the past made important contributions.

The concept of economic warfare, as it has developed historically, is exceedingly simple. It consists primarily in the application of measures to reduce the economic war potential of an enemy by limiting his external sources of supply.

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There are other measures which can be taken against an enemy's economy which might be considered economic warfare - for example, the sabotage of key industrial installations or flooding his economy with counterfeit currency. The French action in the 1920 occupation of the Ruhr is an excellent illustration of this type of warfare. Strategic bombing in its broadest concept is another form of economic warfare.

Historically, however, economic warfare has essentially been directed toward controlling the commodities which move in international trade. In war this control takes the form of an economic blockade reinforced by military measures, such as the search and seizure of ships; by diplomatic measures; and by administrative control measures, the so-called paper blockade to which I will refer later.

Countries have also sought to control trade in times of peace for political and strategic objectives. This type of control in peacetime utilizes essentially economic warfare measures or economic sanctions. There are a number of examples of economic warfare measures being applied today. The Arabs are blockading Israel; Pakistan recently cut trade and transport routes with Afghanistan; Iraq has mounted serious pressure on Syria by economic warfare measures; South Viet-Nam is applying similar pressure on Cambodia. The outstanding current example of economic warfare is the control of direct Western trade with Communist China.

Forms of economic warfare have been utilized since the earliest times. However, this type of warfare became of major importance with the industrialization of the small or comparatively small states of Western Europe. These states were very dependent on external sources of supply for their economies and for their war machines. I will not discuss the methods of economic warfare in any detail. This has been well treated in a paper on the subject recently issued by the Industrial College in its series of mobilization studies. Rather, I would like to consider the principles and problems of economic warfare as revealed in three case studies: The Napoleonic Wars, the two World Wars with Germany from 1914 to 1945, and the present program of economic warfare, or economic defense as it is termed, maintained against the Sino-Soviet Bloc in the interest of Free World security.

During the Napoleonic Wars, both the British and French engaged in economic warfare. The British used their superior sea power not only to sweep French ships from the seas, but also to interdict the trade of neutral or third countries with France. The British had a clear right as a belligerent to seize contraband or strategic goods in neutral ships, and they sought in every way to expand the list of contraband. In doing so, the British came into conflict with such neutrals as the United States.

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American trade with France in this period was extremely profitable, and Thomas Jefferson, as Secretary of State, protested on a number of occasions the seizure of American ships carrying such strategic commodities as corn and other goods to France. In his words, "these seizures are flagrant violations of neutral rights to trade with either belligerent."

On the other side of this conflict, Napoleon faced a stalemate. He was unable to engage British naval power with his preponderant land armies. Consequently, he turned to economic warfare as a means of bringing the British to their knees. He sought to cut off the trade of this nation of shop keepers in the belief that they would then come to terms.

Napoleon's continental system attempted to sever not only trade in strategic goods or contraband, but all trade between the continental countries of Europe and Great Britain. This was an exceedingly unpopular policy with France's Allies and Satellites. Napoleon's treaty with Alexander I of Russia was largely based on obtaining the cooperation of the Russians to extend the embargo under the continental system. The Russian refusal to enforce the embargo, since it proved too costly to them, was a principal cause for Napoleon's invasion of Russia.

Looking back on the Napoleonic Wars, we can conclude that economic warfare as applied by Napoleon was politically more costly to the French in relations with their Allies than it was to the British in terms of hurting their economy. For one thing, Napoleon could not sever Britain's overseas communications. Relations with third countries and the determination of what constitutes strategic goods are two of the most persistent problems in applying economic warfare measures.

During the two World Wars with Germany, economic warfare attained its greatest importance. Both England and Germany were heavily dependent on external sources of supply for their economies and for the maintenance of their war efforts. Both attempted to strangle each other economically, the Germans by the use of submarines and the British by economic blockade.

Germany was a natural target for economic warfare. Even in 1939, Germany still imported 70 percent of its iron ore, 83 percent of its copper, 75 percent of its rubber, 60 percent of its oil, all of its manganese, chrome, nickel, tungsten, and a host of other raw materials. In order to take full advantage of this vulnerability, the British developed a comprehensive system of controls over trade. The whole structure of controls and licensing for the allocation of raw materials

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and shipping in the economic mobilization was turned against Germany in an administrative or paper blockade. The contraband list or list of strategic goods was expanded continually, until in the last stages of both wars only a few goods, such as tobacco, were considered non-strategic.

A series of war trade agreements with the neutrals attempted to bring diplomatic, economic, and political pressures on neutral countries to sever their trade with Germany. Special designations, or black listings, of individuals and firms in neutral countries who had traded with the enemy in contravention of allied controls were inaugurated and extensive control methods were employed over the transshipment of goods. This comprehensive system of controls required a great deal of intelligence on trading activities; the role of intelligence is integral to the application of economic warfare measures.

The allied paper blockade was not only effective in cutting off Germany from external supplies, but it had the added advantage from the British standpoint of freeing their ships to counter the German economic warfare effort in their submarine offensive.

Economic warfare was a decisive factor in the first World War. Germany was unprepared for a blockade in a long war involving the complete or nearly complete mobilization of its resources. Given the battlefield stalemate, the blockade led to the collapse of the German home front.

The results, however, of the allied economic war effort against Germany in World War II were disappointing. Its effect was greatly diminished over that of the first World War by German policies of stockpiling, by German ability to develop synthetic substitutes and by their seizure and control over a broader geographic and economic base.

The principal contribution of economic warfare in the second World War was its influence on German strategy. Hitler believed it was essential to conquer the Soviet Union in order to secure complete economic self-sufficiency. His geopolitical concept led to the invasion of Russia. He gambled for control of the vast resources of the Eurasian heartland and lost.

Let us now consider the present application of economic warfare measures against the Sino-Soviet Bloc. This is not known as economic warfare in the current terminology but as economic defense, and for a good reason. We are not formally or legally at war with the Bloc countries.

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The present system of economic defense had its origin in the concept of collective security embodied in the League of Nations and the United Nations. The concept is that the community of states should take collective measures for "the prevention of removal of threats to the peace and the suppression of actions or aggression and other breaches of the peace." I have quoted this statement from Article I of the United Nations Charter. Both the League Covenant and the United Nations Charter provide for collective economic measures, essentially economic warfare measures, short of the use of armed force, against a state which was a threat to the peace.

In 1935, the League of Nations, declaring Italy an international aggressor in its attack on Ethiopia, called on the nations of the world to apply economic sanctions or controls on trade with Italy. Cooperation proved difficult, but it established the principle of collective action in the economic defense field.

The Soviet Union has never been formally declared a threat to the peace or an aggressor by the United Nations. Its veto power in the Security Council has precluded that approach. However, in 1948 and 1949, the Soviet Union was very much an aggressor in the economic blockade of Berlin, the internal seizure of Czechoslovakia, and the generally threatening military posture toward the nations of the Free World. This threat to the peace led the Free World countries to concert economic and defense policies in the interest of their own collective security.

Concerting national policies by a group of states for economic warfare or economic defense in peace differs substantially from economic warfare in time of war. Most of the same administrative or economic measures can be used, such as export controls, controls on shipping and the transshipment of goods, blacklisting, preclusive buying, and so forth. However, the use of military means for enforcing the embargo on third countries is precluded.

What you have in effect is a league of like minded neutrals applying agreed economic sanctions in which no one of the participating countries has the rights of a belligerent. The effectiveness of the economic sanctions depend entirely on the willingness of the members to apply their national controls in the overall economic defense system. It is a system which places a high premium on diplomatic cooperation for its effectiveness.

In order to concert the Free World effort to limit the flow of strategic goods to the Bloc, an international Consultative Group was

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formed in Paris in 1949. This Group has come to include Japan and all of the NATO countries except Iceland. A number of other countries, not formally members of the Group, also coordinate their national policies with it so that the Consultative Group in Paris represents substantially all the main industrial and trading states of the Free World.

The Consultative Group is independent of NATO. It is an informal arrangement among Free World countries to coordinate policies for economic measures against the Bloc. This Group agrees on the international control lists. It agrees on the specific means which shall be applied for enforcing the embargo and on exceptions to the controls which may be made by the members. Not all of the commodities on the international lists are completely embargoed. A number are under quantitative control. Items on the international lists include armaments, materials of war, atomic energy materials, and other materials or industrial equipment which could make a contribution to Bloc military capabilities.

The international trade controls apply to both the USSR and Communist China, but the two countries have been treated separately. The Korean War led the United Nations General Assembly to pass a resolution in May 1951, calling on all countries to embargo the shipment of strategic materials to Communist China and North Korea, and, in addition, prevent by all means within their jurisdiction the circumvention of controls applied by other countries.

There is a higher level of controls applied against Communist China than against the USSR and Eastern Europe; which means two international controls lists. The number of items on the China list is much greater than that on the list against the rest of the Bloc; also the enforcement of China controls are in certain respects more stringent, particularly over shipping. The Consultative Group organization, sits in two different committees: the Coordinating Committee for the development of policy and the application of controls against the USSR and Eastern Europe, and the China Committee for controls against Communist China.

There are major differences between the United States and its Allies over the international controls. This is one of the major problems of United States diplomacy today. The differences did not arise in the period between 1949 and 1952. In this period the controls were based on an agreed estimate of the likelihood of war with the Soviet Union in the near future. Since the death of Stalin and the Geneva Conference, war in the near future appears much less probable. Subsequently, our Allies sought and obtained a substantial

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reduction of the control list against the USSR. This reduction came into effect in August 1954. It was the result of extensive reviews and negotiations which did not completely satisfy all the countries involved. The United States, which sought to maintain the broadest level of controls possible, met with serious objection from its Allies and struck the best compromise possible in order to maintain the multinational system of controls.

The 1954 downward revision of the lists against the USSR and Eastern Europe meant that the difference in the level of controls against Communist China were even greater than the controls against the rest of the Bloc. That is to say, the number of items embargoed against China was substantially greater than the number embargoed against the USSR. Currently our Allies are seeking to reduce the level of controls against Communist China to the same level applied against the USSR and Eastern Europe. This was a point raised by Prime Minister Eden with President Eisenhower in Washington several months ago.

What motivates our Allies? Why do we have these major differences with them on strategic trade controls? I have already mentioned the changed estimate of the likelihood of war since the death of Stalin and the Geneva Conference. Our Allies are seeking to normalize their relations with the Bloc while keeping their powder dry or their defenses up. In their view new forces are evident in the Bloc which may lead it to change previous aggressive policies.

Our Allies say, "Let us encourage these changes since the costs of war have become so great. We may possibly be able to develop peaceful relations with the Bloc. It is worth trying." In part, our Allies are motivated by commercial considerations. Their dependence on international trade for their economic stability is much greater than our own. They wish to maximize peaceful trade, or, as they term it, "harmless trade" with the Bloc. Now the President also has said that we should seek to expand the area of Free World trade with the Bloc in peaceful goods. The difficulty arises in the determination of "peaceful goods." Our Allies contend that peaceful goods are those which do not directly contribute to immediate Soviet military production -- and note the term "immediate Soviet military production." They believe that goods contributing primarily to the basic economy or to civilian production should not be under control.

Let us take copper as an example. This is a dual purpose commodity utilized for the growth of a basic economy and for war

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production. The USSR is able to meet some 80 percent of its requirements for copper from internal production. It is dependent for 20 percent of its requirements on imports of copper. The British contended that copper should not be on the international embargo list since its denial would not affect current Soviet military production. It would only affect the basic economy.

The United States protested this approach vigorously. We sought by every means to retain the embargo on copper in 1954. It was one of the outstanding differences between the two countries. In order to maintain the international system of controls and in return for other concessions including some strengthening of the control system, the United States was forced to concede on the decontrol of copper wire but not of raw copper.

The United States maintains a comprehensive system of national controls on its own trade with the Bloc. Trade is regulated by the Export Control Act of 1949, administered by the Department of Commerce; the Trading with the Enemy Act, administered by the Treasury; the Atomic Energy Act, administered by the Atomic Energy Commission; and the Munitions Controls Act, administered by the Department of State. These acts do not determine the level of controls; they provide the legislative authority on which our control policies are based. The policy of the United States under this authority has been for exceedingly restricted trade with the Bloc. With regard to Communist China, the United States maintains a complete embargo.

The Mutual Defense Assistance Control Act of 1951, more commonly known as the Battle Act, was an attempt to reinforce the United States position on international controls. It links cooperation by other countries in international trade controls with the receipt of foreign aid. If, under a determination by the President, other countries ship strategic commodities to the Bloc which are a net disadvantage to the Free World, foreign aid from the United States is to be discontinued. It is exceedingly difficult to enforce the United States' view on our Allies and other countries through the application of the Battle Act. Currently, foreign aid to the European countries is small. It is chiefly military in character. They are the NATO countries, our Allies.

An example of the application of the Battle Act might be considered in the case of Ceylon. Ceylon, several years ago, entered into an agreement to ship rubber, a strategic commodity, to Communist China. As a result of this agreement with Communist China, it was determined that Ceylon was not eligible for United States economic

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aid under the application of the Battle Act. However, this was not a very satisfactory determination. Ceylon was shipping rubber to Communist China; it was in its economic interest to do so. But in many other ways Ceylon was a stalwart friend of the West. For example, at the Bandung Conference of the Asian and African countries, Ceylon was an outstanding spokesman for Free World interests. Consequently, the United States recently has waived the application of the Battle Act against Ceylon in order to provide economic assistance to Ceylon, as one of the friends of the United States, despite its trade in rubber with Communist China.

Consideration of the Battle Act poses a question: How far should the United States go in attempting to coerce its Allies into accepting our views as to trade controls? Should we treat them like wartime neutrals and cut off their trade from us in essential commodities? The Department of Commerce has the authority to do this. Should we cut off their military assistance and force them out of NATO? Would this be to our overall security advantage? These are difficult questions. They are questions which have to be considered in the whole context of our security and foreign policy objectives.

Underlying the differences with our Allies on the application of international controls on trade with the Bloc is the fact that no other foreign power in modern history has ever been less vulnerable to economic warfare than the USSR. Soviet self-sufficiency or comparative self-sufficiency is due in part to the wealth of national resources in the vast empire under its control. The principal resource deficiencies, which are few enough, are natural rubber, industrial diamonds, cork, copper and lead, molybdenum and cobalt.

Self-sufficiency has been a major goal of the Soviet Union since the early 1920's. Lenin stated: "Trade will provide us with a wide access for the purchase of necessary machinery. The sooner we accomplish this, the sooner we shall have economic independence from other countries. But not for a second do we believe in lasting trade relations with other countries."

This maxim has been borne out by Soviet trade statistics. The ratio of imports to internal production was at its height during the 1930's, dependence on imports steadily declined, and the ratio of imports to internal production today is less than one percent.

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Bloc comparative self-sufficiency is also borne out in the relatively small proportion that Soviet trade with the West contributes to total Free World trade.

You will notice from Chart 1* that total Free World trade in 1954 was approximately 156 billion dollars, of which the Sino-Soviet Bloc only contributed 3.6 billion or 2.3 percent. The bar graph at the bottom of the chart illustrates the division of Bloc trade with the Free World among the USSR, the European Satellites and Communist China. You will notice that the European Satellites provide the largest share of both Bloc exports to and imports from the Free World countries.

Chart 2* illustrates the trade of the Free World with the Bloc for individual years from 1948 to 1955; imports from the Bloc on the left, exports to the Bloc on the right. Bloc trade with the Free World in 1948 was roughly in balance at 2 billion dollars. The application of trade controls began to take effect in 1949, and you see the results in diminished trade. However, the growth of the Bloc economies coupled with internal adjustments to the controls has brought trade back in 1955 to approximately the 1948 level.

The Soviet Union today is the second industrial power of the world. Its industrial production is increasing at a very rapid rate, or 10 percent annually. Given present rates of growth, the industrial production of the USSR will equal that of the United States by 1975. Already in terms of the number of machine tools produced, the USSR has equaled the United States production. This industrial growth has taken place and continues to take place despite a high level of armaments production. Trade controls have provided no apparent limitation in the development of new weapons and in armaments production in the USSR.

The Soviet Union in this period is in a changing trade position with the rest of the world. Formerly a net exporter of food and raw materials and net importer of industrial goods, today it is on net balance an importer of food and is providing increasing exports of capital goods. It is exporting industrial goods to China and has made commitments to underdeveloped Free World countries for the export of almost a billion dollars in industrial goods.

* See attached charts.

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Trade with the West permits the Soviet Union to achieve a slightly more rapid development in certain sectors of its economy. This is particularly true in the electrical equipment industry and in the shipbuilding industry. They seek merchant ships, not because they can't build them, but because their shipyards are heavily engaged in building a Soviet navy. The USSR also depends on trade with the West for prototypes, small quantities of advanced and complicated machinery.

Let us consider for a moment the vulnerability of Communist China to economic warfare or trade controls. Here is a country which requires large imports of industrial goods in order to meet its industrial objectives. It is getting these requirements in large measure from the USSR. Of course, under the Free World embargo it is impossible for Communist China to obtain industrial goods directly from the West, but most of the goods under differential controls, which are the basic industrial goods, can be obtained by China by transshipment through Eastern Europe.

Starting from a low level of industrial production, China's industrialization has progressed very rapidly. The annual rate of industrial growth during the period 1953-1954 was 20 percent a year; in the current period, 1955-1957, it is 10 percent a year. Communist China is probably receiving all of the major industrial imports it can absorb at this particular time. Limitations on increasing its industrial imports are mainly related to its ability to increase exports or to pay for additional goods.

To summarize, the effect of Free World controls on Communist China is to provide little direct support in industrial goods from the West, but they are getting them from the USSR. The lower level of controls against the USSR and Eastern Europe means that many of the goods under control to China can be transshipped from such points in Eastern Europe as Gdynia. These differential controls impose delays, harassment and added transport costs. They also preclude the extension of Western credits for the delivery of Western goods to China.

We have considered the development of economic warfare in terms of the role which it has played in the strategy of war in the past and which it is playing in the present. What can we conclude about the future of economic warfare?

It is doubtful whether economic warfare, in the traditional sense of severing external sources of supply, will play as important a role in the overall plans and strategy of war as it played in the

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first half of the 20th Century. Major war is a rich man's game. The advanced weapons system, requiring resources of whole continents, means that only the United States and the USSR, the industrial super-powers, can wage a major war. Neither the United States nor the USSR is directly vulnerable to traditional economic warfare unless there were a major realignment of the other states of the world - that is, for example, the detachment of Eastern Europe from the Bloc or Soviet control of additional major Free World areas.

Given the present nuclear stalemate, the major battle or competition between the USSR and the United States is for control and influence in the uncommitted areas of the Middle East and South Asia. The Soviets have mounted a major economic and diplomatic offensive in these areas.

They have shipped arms to Egypt, thereby upsetting the peaceful balance maintained in the Middle East. It was the control of the movement of arms to the Middle East, exercised by the Western Powers, which maintained the uneasy stability of that area. By entering the area, you might say by breaking a Western blockade over the shipment of arms, the USSR has been able to achieve a major objective in increasing the instability of the Middle East.

The Soviet offensive includes economic assistance in the offers and shipments of industrial goods and complete industrial plants on attractive terms to such countries as India, Burma, Yugoslavia, Egypt, and other uncommitted countries of South Asia and the Middle East. The economic offensive has been accompanied by diplomatic moves. This is a type of economic warfare or competition for the favor of uncommitted areas by economic assistance and favorable trading offers.

The loss of the Middle East and South Asia could be extremely serious to Free World interests and to the long-term balance of power between the USSR and the United States. It would place the Soviet Union in a strong position to wage economic warfare against Western Europe. The West European economies, the economies of our NATO Allies, are extremely dependent on the oil of the Middle East. They are also dependent on these areas for other raw materials and for outlets for their exports.

At this stage, the conflict is between two largely self-sufficient industrial giants or super-states for influence and control in the border reaches of the Eurasian continent. The battle is being waged with economic and diplomatic methods which are very different from the methods previously associated with traditional economic warfare.

I thank you.

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QUESTION: The implication that I got from your talk was that Russia and her Satellites would like to expand their trade. Yet I believe that in 1953 they made foreign payments in gold and in late 1954 cut back voluntarily on their imports. Would you say that they really want to expand or do they want to continue in this condition of autarky that they are in?

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[REDACTED] I think you are quite right that the Soviet Union does not want to expand its trade substantially, and there is little scope under their present policies for a major expansion of trade. They do want to continue the present levels of trade with modest increases for the benefit it gives them to certain sectors of their economy, but they have by no means abandoned their goal of self-sufficiency.

QUESTION: If the embargo against Red China were withdrawn, there is a possibility there that Japan would help themselves a great deal by trading there. They need an outlet for their goods. Would we be helping Japan more than Red China? Which one would gain the more? Would you mind discussing that for a while?

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[REDACTED] That's a very good question. If the embargo were withdrawn, we face two possibilities: One is that the differential embargo, that is the higher level of controls against China, would be reduced to the level of the controls against the rest of the Bloc. This particular differential permits the transshipment of goods from Western Europe. So to some extent, West European countries are now able to export controlled goods indirectly to China. However, the geographical location of Japan makes such transshipment impractical for her, that is to ship goods to Western Europe and back to China.

If the embargo were reduced to the level of that against the USSR, the Free World country which would get the principal benefit would be Japan. In part, this is due to the fact that Communist China has unutilized resources in iron ore that could be shipped to Japan but which it does not presently ship because it wants controlled goods from Japan and it doesn't want to ship its iron ore for the type of goods Japan can send it.

As to whether this would be of greater benefit to Japan than to China is problematical. It would not contribute greatly to overall Japanese trade, but would help in certain sectors of their economy. It would on balance be advantageous to Japan.

I am sorry to be unclear on that last part of the question but it is a difficult one to answer affirmatively.

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QUESTION: My question has also to do with trade. You indicate that Russia has no propensity to trade with us. Other speakers here have indicated that we probably, if we could get away with it, should encourage and foster trade with the Soviet Bloc, the point being that at any 10 or 15-year future date, if we then wanted to exert some economic pressures, we would have built up over that time some levers, some methods of interdependence of Russia upon us. Therefore, they thought our national policy, instead of discouraging trade with Russia, should encourage it, that it is to our benefit to encourage it. Would you comment?

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██████████ This would be ideal if we could do it. Certainly as a principle of economic warfare, it would be very sound. It is doubtful whether the Russians would permit themselves to get into that position or would permit us to develop levers of the type which you mention.

They view trade largely as a means to supplement their growth in certain sectors. In other words, they need a slightly more rapid growth in certain sectors of their economy than they can easily achieve from their own resources. If they choose to depend more heavily on trade, if they choose, for instance, to develop their economy along the lines that the United Kingdom did in the 19th Century, then we could probably have very great levers. I just don't think it will happen.

QUESTION: How about the reverse situation, that Russia is trading with adjacent countries and making them dependent on her? There are some rumors that Russia is releasing rubles into the world market, indicating she is going into world trade on a greater scale.

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██████████ That is a much greater danger. Russia's trade offers, her offers of capital assistance to uncommitted countries of the Middle East and South Asia will gain levers of influence over these countries. Certainly that is exactly what the Russians are seeking, not so much, as far as we can tell at this moment, in the traditional economic warfare sense, but initially to maximize her political influence in these areas and perhaps ultimately to gain more direct control.

So far the Russians have been attempting to do this without increasing their own reliance on the Free World. Their industrial production is now so large that they have, you might say, a surplus which they can utilize for this trade with the underdeveloped countries without becoming dependent on these countries themselves. Of course, they have a very good alternative for these industrial

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resources. They could raise the standard of living of their people. They could produce more refrigerators, automobiles, or other types of consumer goods.

The strength of their position comparatively at this time is that they have been able to hold down civilian consumption so drastically.

I am not sure I have answered every aspect of your question.

QUESTION: Is there any truth that they are releasing rubles?

25X1A9a [REDACTED] On that particular aspect, they are not, as a policy, releasing large quantities of rubles into the Free World for any economic warfare objective. Rubles got into the Free World largely as a result of their occupation of Austria. It is a very limited market. The market is mainly in Paris, and rubles are bought up by Russian emigres who send these rubles home. They are also bought up to a limited extent in New York as souvenirs. But it is a very minor aspect of the overall situation.

QUESTION: I was concerned with the forecast of the growth that you gave for the Russian economy. If they should closely parallel your forecast, wouldn't they be in a very strong position to take more dominant leadership in economic warfare, particularly in uncommitted areas?

25X1A9a [REDACTED] You should be concerned, considering the present rates of growth; it is very rapid indeed. What I said was that given present rates of growth, by 1975 their industrial production - not their total national product, but just looking at industry - would be roughly equivalent to the United States. It certainly will mean that they can enter the Free World areas and compete for markets with the Western European countries. It is a type of economic warfare although not the type that we associate with the blockade in the first and second World Wars.

QUESTION: Hong Kong seems to be a port of considerable activity in the trade center for shipments into Communist China. Can you tell us something about the type of goods going in that trade and the origin of the goods?

25X1A9a [REDACTED] In the early years of the international trade control program Hong Kong was a major leak and the type of goods going in were industrial goods which the Chinese needed, such as parts for Western automobiles in China, rubber tires and some aviation gasoline. However, in the last few years this leak has been largely plugged. It is today a very small and insignificant trickle.

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For one thing, since the reduction of the controls against the USSR the Chinese can gain many of these goods by transshipment from Gdynia, and Hong Kong is not so important to them. This, coupled with British enforcement procedures, has reduced that trade.

QUESTION: Assuming that the embargo against China were withdrawn and made the Chinese less dependent upon Russia, would there be any basic change in the relationship between the Chinese and the Russians?

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That's a good question. If the embargo against China were dropped and the Chinese continued their present policies of maximizing their trade and dependence for industrial goods on the rest of the Bloc, the increase in Free World trade with China would be very small indeed. Chinese imports of goods in 1954 were at quite a high level, roughly 1.7 billion dollars, most of that in industrial and capital goods, and 80 percent of those imports were from the USSR and Eastern Europe.

It is difficult to see just how we could maximize possible friction between the USSR and Communist China through trade. If the embargo were dropped, China would have an alternative source of industrial goods. Would the present leadership want to depend too heavily on the West for these goods, to give the West certain levers, as was referred to earlier, for exercising denial in economic warfare against it? I don't think so. I think China probably would seek imports from the West pretty much in the way the USSR sought imports for its own early industrial development. It would import to expedite its industrialization, but at the same time increase its self-sufficiency and free itself from the need to import.

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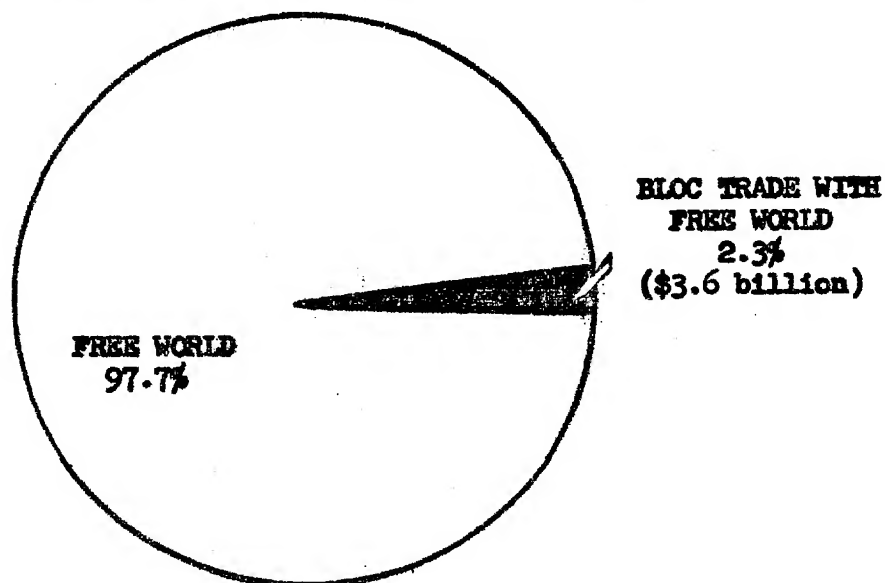
COLONEL NYQUIST: Gentlemen, I am afraid that is all we will have time for this morning. [REDACTED] on behalf of the entire college, I want to thank you for coming down here this morning and giving us a very interesting and educational lecture.

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Chart No. 1

**SINO-SOVIET BLOC SHARE IN FREE WORLD TRADE
1954**

(Total Free World Trade Approx. \$156 Billion)

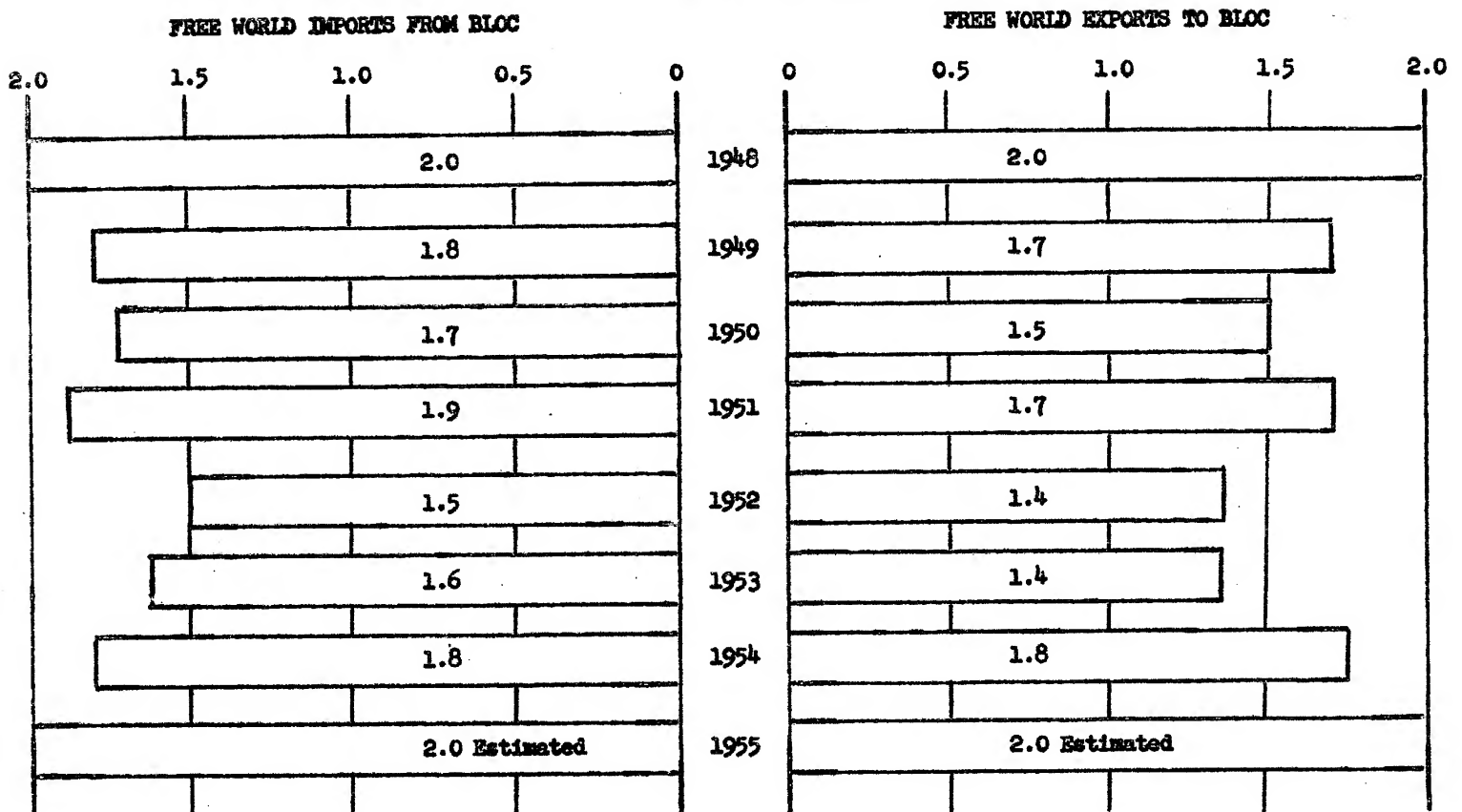


| | USSR | EUROPEAN SATELLITES | COMM. CHINA | (Millions of Dollars) |
|--------------|------|---------------------|----------------|--------------------------|
| BLOC EXPORTS | 500 | 950 | 370 | 1,820 |
| BLOC IMPORTS | 570 | 900 | 290 | 1,760 |

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Chart No. 2

TRADE OF FREE WORLD WITH SINO-SOVIET BLOC
1948 - 1955
(Billions of Dollars)



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